

ALTA MUNICIPAL UTILITIES
(A Component Unit of the City of Alta, Iowa)

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2010**

ALTA RAPIDS MUNICIPAL UTILITIES

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ALTA MUNICIPAL UTILITIES

OFFICIALS

Name	Position	Term Expires
Jeff James	Trustee	June 2016
Ron Gullickson	Trustee	June 2011
Dennis Weber	Chairman	June 2012
C. Alan Wadsley	Trustee	June 2014
Kevin Walsh	Trustee	June 2015
Tim Taylor	Superintendent	Indefinite
Ron Chapman	Superintendent	Resigned January 30, 2011
Tom Houseman	City Clerk / City Treasurer	Indefinite

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Daniel A. Dudley, C.P.A.
Geoffrey F. Schnathorst, C.P.A.
Catherine T. Kellogg, C.P.A.

INDEPENDENT AUDITORS' REPORT

Alta Municipal Utilities
Alta, Iowa

We have audited the accompanying financial statement of each fund of the business type activities of Alta Municipal Utilities (the Utilities), a component unit of the City of Alta, Iowa, as of and for the year ended December 31, 2010, which collectively comprise the Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, the financial statements of Alta Municipal Utilities are intended to present the respective financial position and results of operations and cash flows of proprietary fund types of only that portion of the financial reporting entity of the City of Alta, Iowa, that is attributable to the transactions of the Utilities.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of each fund of Alta Municipal Utilities, a component unit of the City of Alta, Iowa, as of December 31, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2011, on our consideration of Alta Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered important for assessing the results of our audit.


Budgetary comparison information on Schedule 1, page 18, is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion of the financial statements that collectively comprise Alta Municipal Utilities' basic financial statements. Other supplementary information included in Schedule 2, page 20, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Alta Municipal Utilities has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the financial statements.

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

May 25, 2011

By  _____
Certified Public Accountant

FINANCIAL STATEMENTS

ALTA MUNICIPAL UTILITIES

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2010

ASSETS	Business Type Activities - Enterprise Funds		
	Electric Utility Fund	Water Utility Fund	Total
CURRENT ASSETS:			
Cash and Invested Cash	\$ 745,900	\$ (275,193)	\$ 470,707
Accounts Receivable, Net	176,371	27,279	203,650
Inventory	81,146	4,216	85,362
Accrued Interest Receivable	152	-	152
Prepaid Expenses	17,085	1,678	18,763
Total Current Assets	1,020,654	(242,020)	778,634
RESTRICTED ASSETS:			
Cash and Invested Cash Held for -			
Bond Sinking	25,098	-	25,098
Bond Reserve Fund	306,625	-	306,625
Bond Improvement Fund	200,000	-	200,000
NIMECA - Emissions Account	4,718	-	4,718
CTS - Capital Improvement Fund	82,710	-	82,710
Total Restricted Assets	619,151	-	619,151
OTHER ASSETS:			
Due From the City of Alta (Fire Station)	125,858	-	125,858
Non-Utility Property - Net of			
Accumulated Depreciation	14,642	-	14,642
Prepaid Expenses	-	84,825	84,825
Land Held for Economic Development	14,196	-	14,196
Deferred Patronage Refund Receivable	24,059	-	24,059
Plant Acquisition Costs - Net of Amortization	3,514	-	3,514
Bond Issuance Costs - Net of Amortization	21,052	-	21,052
Total Other Assets	203,321	84,825	288,146
CAPITAL ASSETS:			
Plant, Facilities and Equipment, at Cost	4,367,103	2,202,697	6,569,800
Accumulated Depreciation	(1,899,152)	(1,271,355)	(3,170,507)
Land	70,913	-	70,913
Construction In Progress	56,249	-	56,249
Cost Less Depreciation	2,595,113	931,342	3,526,455
Total Assets	\$ 4,438,239	\$ 774,147	\$ 5,212,386

See Notes to Financial Statements

ALTA MUNICIPAL UTILITIES

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2010

LIABILITIES	Business Type Activities - Enterprise Funds		
	Electric Utility	Water Utility	Total
CURRENT LIABILITIES:			
Accounts Payable - Trade	\$ 62,443	\$ 10,837	\$ 73,280
Other Payables	55,227	-	55,227
Payroll, Sales and Use Taxes Payable	2,520	1,351	3,871
Accrued Expenses	24,400	2,281	26,681
Customer Deposits	40,560	-	40,560
Total Current Liabilities	185,150	14,469	199,619
LIABILITIES FROM RESTRICTED ASSETS:			
Current Maturities of Revenue Bonds	200,000	-	200,000
NON-CURRENT LIABILITIES:			
Electric Revenue Bonds, Net of			
Current Maturities Above	2,136,542	-	2,136,542
Total Liabilities	2,521,692	14,469	2,536,161
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	297,779	931,342	1,229,121
Restricted	619,151	-	619,151
Unrestricted	999,617	(171,664)	827,953
Total Net Assets	1,916,547	759,678	2,676,225
Total Liabilities and Net Assets	\$ 4,438,239	\$ 774,147	\$ 5,212,386

See Notes to Financial Statements

ALTA MUNICIPAL UTILITIES

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Business Type Activities - Enterprise Funds		
	Electric Utility Fund	Water Utility Fund	Total
OPERATING REVENUES:			
Sales to Customers	\$ 1,394,921	\$ 300,748	\$ 1,695,669
Penalties and Service Fees	21,852	1,199	23,051
Tax Revenues	-	6,399	6,399
Joint Use Revenue	1,300	-	1,300
Miscellaneous	22,425	-	22,425
Total Operating Revenues	1,440,498	308,346	1,748,844
OPERATING EXPENSES:			
Purchased Power	443,421	-	443,421
Local Plant Operations	49,730	104,071	153,801
Generating Expenses - Walter Scott 4	154,203	-	154,203
Distribution Maintenance Expenses	80,590	97,687	178,277
Administration General Expenses	140,589	91,355	231,944
Economic Development, Energy Conservation	8,201	28	8,229
Depreciation	123,466	93,624	217,090
Total Operating Expenses	1,000,200	386,765	1,386,965
Operating Income (Loss)	440,298	(78,419)	361,879
NONOPERATING REVENUES (EXPENSES):			
Revenues from Merchandising	7,826	-	7,826
Cost of Merchandising	(8,501)	-	(8,501)
Loss from Merchandising	(675)	-	(675)
Interest Income	11,094	-	11,094
Interest Expense	(107,459)	-	(107,459)
Amortization of Bond Issuance Costs	(11,130)	-	(11,130)
Net Nonoperating Revenues (Expenses)	(108,170)	-	(108,170)
Income (Loss) before Transfers	332,128	(78,419)	253,709
SPECIAL ITEM	14,781	-	14,781
TRANSFERS IN (OUT):			
Payment to City	(175,652)	-	(175,652)
Total Transfers In (Out)	(175,652)	-	(175,652)
Change in Net Assets	171,257	(78,419)	92,838
Total Net Assets - Beginning of Year	1,745,290	838,097	2,583,387
Total Net Assets - End of Year	\$ 1,916,547	\$ 759,678	\$ 2,676,225

See Notes to Financial Statements.

ALTA MUNICIPAL UTILITIES

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Business Type Activities - Enterprise Funds		
	Electric Utility Fund	Water Utility Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers and Users	\$ 1,422,377	\$ 308,759	\$ 1,731,136
Cash Paid to Suppliers for Goods and Services	(870,627)	(270,012)	(1,140,639)
Cash Paid to Employees for Wages and Benefits	(136,569)	(111,282)	(247,851)
Net Cash Flow from Operating Activities	415,181	(72,535)	342,646
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Cash Paid to the City of Alta	(176,510)	-	(176,510)
Cash Paid for Nonoperating Expenses	(11,478)	-	(11,478)
Net Cash from Noncapital Financing Activities	(187,988)	-	(187,988)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Cash Paid for Construction in Progress Capital Assets	(36,244)	(25,851)	(62,095)
Cash Paid for Principal Payments on Revenue Debt	(190,000)	-	(190,000)
Cash Paid for Interest on Debt	(108,055)	-	(108,055)
Net Cash Flow from Capital and Related Financing Activities	(334,299)	(25,851)	(360,150)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on Investments	11,093	-	11,093
Increase in Restricted Cash	(8,318)	-	(8,318)
Release of Restricted Cash	5,598	-	5,598
Net Cash Flow from Investing Activities	8,373	-	8,373
Net Increase in Cash and Cash Equivalents	(98,733)	(98,386)	(197,119)
Cash and Cash Equivalents - Beginning of Year	844,633	(176,807)	667,826
Cash and Cash Equivalents - End of Year	<u>\$ 745,900</u>	<u>\$ (275,193)</u>	<u>\$ 470,707</u>

ALTA MUNICIPAL UTILITIES

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Business Type Activities - Enterprise Funds		
	Electric Utility Fund	Water Utility Fund	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating Income (Loss) (Exhibit B)	\$ 440,298	\$ (78,419)	\$ 361,879
Adjustments to Reconcile Operating Income			
(Loss) to Net Cash From Operating Activities -			
Depreciation - Capital Assets	123,466	93,624	217,090
Other Revenues (Expenses)	(149,363)	-	(149,363)
(Increase) Decrease in Operating Assets -			
Accounts Receivable	(18,121)	413	(17,708)
Inventories	1,375	41	1,416
Other Current and Prepaid Assets	883	(87,319)	(86,436)
Increase (Decrease) in Operating Liabilities -			
Accounts and Other Payables	14,648	315	14,963
Customer Deposits	1,425	-	1,425
Payroll, Sales and Use Taxes Payable	570	(1,190)	(620)
Net Cash Flows from Operating			
Activities	<u>\$ 415,181</u>	<u>\$ (72,535)</u>	<u>\$ 342,646</u>

ALTA MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Nature of Activities -

The City of Alta, Iowa, (the City) owns an electric light and power system, water treatment system, telephone system and coaxial cable system. The electric and water systems are operated independently as Alta Municipal Utilities (AMU) and the telephone and coaxial cable systems are operated independently as Alta Municipal Broadband Communication Utility (the Communication Utility). Alta Municipal Utilities is the subject of these financial statements and is governed by a five-member Board of Trustees, appointed by the Mayor with the approval of the City Council. The Trustees exercise all oversight responsibilities.

AMU provides electric energy and potable water to a diversified base of residential and commercial customers and other governmental units, primarily within the boundaries of the City. As an independent public utility, state statutes vest authority in the Trustees to set usage rates, prepare financial budgets and maintain books of account for each utility system they operate. AMU is generally not liable for federal and state income taxes or ad valorem taxes on property, but may make payments in-lieu-of taxes to local government.

B. Reporting Entity -

Generally accepted accounting principles requires management to consider if it has oversight responsibility or control over any other legal entity or receives a financial benefit or is a burden in its relationship with such other entity. The Alta Municipal Utilities has no component units itself, but has determined that it is a component unit of the City of Alta. The Alta Municipal Utilities reports its financial activity independent of the City. These financial statements include only accounts of the Alta Municipal Utilities.

C. Shared Utility Plants -

Common Transmission System - North Iowa Municipal Electric Cooperative Association (NIMECA), acting as agent for its participating members, including AMU, entered into an agreement with Corn Belt Power Cooperative to obtain for the benefit of its participating members a long-term right and access to electric transmission facilities, referred to as Common Transmission System (CTS) necessary to handle the combined needs of the participating members through undivided ownership interest in the capacity of transmission facilities. The costs associated with this agreement are allocated to the members based on their proportionate use of the shared transmission system. AMU has recorded its share of these costs as capital assets in the Electric Utility Fund. The net book value at December 31, 2010, was \$424,849.

Walter Scott 4 Generating Station - AMU is one of fourteen owners of Walter Scott 4 Generating Station which is managed by MidAmerican Energy under terms of the basic generating agreement between MidAmerican Energy and the owners. AMU, as a tenant-in-common, owns 0.13 percent of the generating station for generating, purchasing, obtaining by exchange, or otherwise acquiring or transmitting electric power and energy. AMU's cost of acquiring its share of this generating station was recorded as capital assets in the Electric Utility Fund. The net book value at December 31, 2010, was \$1,638,191.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The operators of both the Common Transmission System and Walter Scott 4 Generating Station have established accounts to which AMU is required to pay its pro rata share, net of revenues earned, of operating and maintenance costs. Disbursements from these accounts allocated to AMU are included in the financial statements of AMU.

D. Basis of Presentation -

The accounts of AMU are organized on the basis of enterprise funds, each of which is considered to be a separate accounting entity and each displayed in a separate column in the financial statements. The activities of each fund are accounted for with a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. AMU reports two major enterprise funds, Electric Utility Fund and Water Utility Fund. Enterprise funds are used to (a) account for the amount by which cost or expenses of providing goods or services to the public are offset by revenue from the sale of such goods or services, or (b) where the governing body has decided determination of revenues earned, expenses incurred, and/or net income is appropriate public policy, accountability, or other purpose.

These financial statements are presented in conformity with U.S generally accepted accounting principles (GAAP) applicable for enterprise funds of governmental entities. In reporting financial activities, AMU applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as Financial Accounting Standards Board (FASB) statements and interpretations, including statements and interpretations of the FASB issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

E. Measurement Focus and Basis of Accounting -

Measurement focus refers to what is measured and basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

AMU proprietary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. As such, the fund measurement objective is the determination of operating income, changes in net assets, financial position, and cash flows. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when the related obligation is incurred, regardless of the timing of related cash flows. The applicable generally accepted accounting principles are those similar to businesses in the private sector.

The statement of net assets and statement of revenue, expenses and changes in net assets display information about the reporting government business-type entity as a whole and by individual funds. They are presented using the full accrual economic resource basis. For the most part, the effect of interfund activity has been removed from these statements. The statement of net assets presents AMU's assets and liabilities with the remaining difference reported as net assets in three components:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt attributable to acquisition, construction or improvement of those assets.

Restricted net assets results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unrestricted net assets consist of net assets not meeting the definition of the two preceding components. Unrestricted net assets may have constraints on resources imposed by management which can be removed or modified.

The statement of revenue, expenses and changes in net assets distinguish operating revenues and expenses from non-operating items to display the degree to which operating expenses of a given function are offset by operating revenue. Operating revenues and expenses generally result from providing, producing and delivering goods or services in connection with an enterprise's principal ongoing operations. Operating revenue is primarily charges to customers for sales or services. Operating expenses include the cost of sales, administrative expenses and depreciation on capital assets. Revenue and expenses not meeting this definition are reported as non-operating items.

F. **Use of Estimates -**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. **Revenue Recognition -**

For most services, meters are read and bills are rendered on a cycle basis near the end of each month. Revenues earned are recorded only through the date meters are read each month. As such, revenues earned from utility usage delivered after meters are read to the end of the month are minimal and not estimated or recorded.

H. **Cash and Cash Equivalents -**

The enterprise funds of AMU combine their cash and invested cash (including restricted assets) into shared bank accounts at one financial institution. For purposes of cash flows, cash and cash equivalents (nonnegotiable certificates of deposits) are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

I. **Accounts Receivable and Allowances -**

An estimate is made for allowances for doubtful collections based on an analysis of the aging of accounts receivable and on historical write-offs net of recoveries. Additional specific amounts may be included based on credit risk as deemed appropriate by management.

J. **Inventories -**

Material, supplies and fuel inventories are stated at cost, which does not exceed market. Cost is generally determined on a weighted-average basis. Electric Utility inventories include fuel for the local plant and its joint ownership share of the coal pile at the Walter Scott 4 Generating Station.

K. **Capital Assets -**

Capital assets, which include utility plants, infrastructures, facilities and equipment, are valued at historical cost. The cost of system renewals and betterments includes engineering, labor, construction period interest and other related costs. Preliminary and construction costs of projects not yet in service, if any, are shown in the financial statements as construction in progress. Maintenance and repairs which do not add to the capacity or efficiency of the asset are charged to operating expense.

No interest costs were capitalized for the year ended December 31, 2010, as no qualifying assets were constructed or acquired.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

AMU does not have a written policy for capitalizing assets. Management determines capitalization or expensing on an individual basis.

Provision for depreciation of generating, transmission, and distribution plant is computed on a straight-line basis employing a group method. The original costs of assets retired (not constituting the sale of an operating unit or system) together with the costs of removal less salvage are charged to the related accumulated depreciation accounts. In accounting for the sale of operating units or systems, gains or losses are included in the final change in net assets amount.

Provision for depreciation of general plant is computed on a straight-line basis employing the unit depreciation method. The original cost of property retired is removed from the general plant accounts and the related accumulated depreciation accounts are charged for the depreciation taken to date. Gain or loss is recognized to the extent that the salvage value of the assets retired exceeds or falls short of the remaining book value of the assets retired.

No depreciation is taken on construction in progress. Estimated useful lives by category of capital assets are as follows:

Plant and Structures	20-50 Years
Transmission System and Improvements	25-35 Years
Distribution System and Improvements	25-35 Years
Sub-Stations and Improvements	20-35 Years
Tools and Shop Equipment	5-10 Years
Furniture and Office Equipment	5-10 Years
Vehicles	5 Years

L. Restricted Net Assets -

Amounts shown as restricted net assets and the purpose of the restriction are as follows:

Restricted for -

CTS Improvement account	\$ 82,710
NIMECA – Emissions account	4,718
Bond Sinking Fund	25,098
Bond Reserve Fund	306,625
Bond Improvement Fund	200,000
	<u>\$ 619,151</u>

M. Budgets and Budgetary Accounting -

The budgetary comparison and related disclosures are reported as required supplementary information. The budget is prepared on the same basis as these financial statements. During the year ended December 31, 2010, expenses did not exceed the amount budgeted.

NOTE 2 - CASH AND INVESTED CASH AND POOLED INVESTMENTS

Alta Municipal Broadband Communications Utility and Alta Municipal Utilities pool their deposits and investments and maintain records as to each entity's share of the total balance. All deposits at December 31, 2010, were covered by federal depository insurance, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

NOTE 2 - CASH AND INVESTED CASH AND POOLED INVESTMENTS (Continued)

As of December 31, 2010, the Water Fund had an overdraft position in the overall shared checking account of \$275,193 which effectively means that the Water Fund has borrowed from the Electric, Telephone, and Cable Funds. It is unknown how much of that amount is borrowed from each Fund.

Both entities are authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit or savings accounts at federally insured depository institutions approved by the Trustees and Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of drainage districts.

Monies held for special purposes are limited to the use for which restricted and cannot be used for the general operations of the Utilities. The funds held for debt redemption are required by covenants of debt resolutions and will be released to unrestricted funds upon pay-off of the related debt.

Interest rate risk - AMU's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of AMU.

At December 31, 2010, the AMU had investments in the Iowa Public Agency Investment Trust (IPAIT) held in the NIMECA CTS Improvement Fund, which are valued at an amortized cost of \$82,710. Deposits with IPAIT are not FDIC insured as IPAIT is not considered a financial institution. Instead, IPAIT is a common law trust established under Iowa law pursuant to Chapter 28E and Sections 331, 555 and 384.21, Iowa Code (1987), as amended, which authorizes Iowa public agencies to jointly invest monies pursuant to a joint investment agreement. IPAIT is registered under the Investment Company Act of 1940. Investments in IPAIT are not classified as to custodial credit risk.

NOTE 3 - CTS - CAPITAL IMPROVEMENT FUND

This account is currently used to record funds deposited with NIMECA to be used for future construction and/or maintenance of the common transmission system.

NOTE 4 - DUE FROM THE CITY OF ALTA

The Electric Utility made payments on behalf of the City for the construction of the new Fire Station during 2010 in the amount of \$259,510. Of those payments, \$133,652 was an additional contribution to the city. AMU has an agreement with the City for repayment of the other \$125,858. The City will repay \$25,372 a year for five years beginning in July 2011. Interest will be collected on the outstanding obligation at a rate of .318%.

NOTE 4 - DUE FROM THE CITY OF ALTA (Continued)

Annual amounts receivable in the future for the loan are as follows:

Year Ending December 31,	Principal	Interest	Total
2011	\$ 25,172	\$ 200	\$ 25,372
2012	25,052	320	25,372
2013	25,132	240	25,372
2014	25,211	160	25,371
2015	25,291	80	25,371
Totals	<u>\$ 125,858</u>	<u>\$ 1,000</u>	<u>\$ 126,858</u>

NOTE 5 - CAPITAL ASSETS

Details of changes in capital asset costs by category and depreciation reported for the year are as follows:

	Beginning of Year	Increases	Decreases	End of Year
Capital assets being depreciated -				
Walter Scott 4 Production	\$ 1,786,927	\$ 6,051	\$ -	\$ 1,792,978
Transmission System	783,946	17,300	4,687	796,559
Distribution	1,028,053	25,582	-	1,053,635
Buildings and improvements	883,016	122	-	883,138
Equipment	<u>2,039,776</u>	<u>3,714</u>	<u>-</u>	<u>2,043,490</u>
Total Cost	6,521,718	52,769	4,687	6,569,800
Less -				
Accumulated Depreciation	<u>2,962,954</u>	<u>212,240</u>	<u>4,687</u>	<u>3,170,507</u>
Cost Less Depreciation	3,558,764	(159,471)	-	3,399,293
Capital assets not being depreciated -				
Land	70,913	-	-	70,913
Construction In Progress	<u>-</u>	<u>56,249</u>	<u>-</u>	<u>56,249</u>
Total Capital Assets, Net	<u>\$ 3,629,677</u>	<u>\$ (103,222)</u>	<u>\$ -</u>	<u>\$ 3,526,455</u>

NOTE 6 - REVENUE BONDS AND NOTES PAYABLE

Series 2003 Electric Revenue Bonds were issued in November 2003 by the Electric Utility in the original amount of \$1,615,000. The bonds provided funds to finance the purchase of 1.05 Megawatts of the 790 Megawatt MidAmerican electric generating plant built near Council Bluffs, Iowa referred to as the Walter Scott 4 Generation Plant. These bonds mature serially from December 1, 2004 through December 1, 2021, with interest at various rates from 1.40 to 4.75 percent per annum payable semiannually on June 1 and December 1. The bonds are callable at par plus accrued interest on or after December 1, 2011.

Series 2005 Electric Revenue Capital Refunding Loan Notes were issued In December 2005 by the Electric Utility in the original amount of \$1,465,000. The notes provided funds to advance refund the 2000 revenue notes under a crossover refunding arrangement. The Series 2005 Electric Revenue Capital Refunding Loan Notes were subsequently refunded in February 2011 and replaced by Series 2011 Electric Revenue Refunding Capital Loan Notes.

NOTE 6 - REVENUE BONDS AND NOTES PAYABLE (Continued)

Changes in bond and notes outstanding for the year are as follows:

	Balances Beginning of Year	Increases	Decreases	Balances End of Year
2003 Electric Revenue Bonds	\$ 1,205,000	\$ -	\$ (75,000)	\$ 1,130,000
2005 Electric Refunding Notes	1,355,000	-	(115,000)	1,240,000
Subtotals	<u>\$ 2,560,000</u>	<u>\$ -</u>	<u>\$ (190,000)</u>	<u>\$ 2,370,000</u>
Less - Current Maturities				(200,000)
Unamortized Discount				(16,777)
Unamortized Refunding Charges				(16,681)
				<u>\$ 2,136,542</u>

Future maturities of bond and note principal and interest are as follows:

Year Ending December 31,	Series 2003 Revenue Revenue Bonds		Series 2005 Revenue Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 80,000	\$ 48,443	\$ 120,000	\$ 52,730	\$ 200,000	\$ 101,173
2012	85,000	45,602	120,000	48,050	205,000	93,652
2013	90,000	42,458	125,000	43,250	215,000	85,708
2014	90,000	38,992	135,000	38,125	225,000	77,117
2015	95,000	35,393	135,000	32,523	230,000	67,916
2016-2020	550,000	111,000	605,000	68,550	1,155,000	179,550
2021	140,000	6,650	-	-	140,000	6,650
Totals	<u>\$1,130,000</u>	<u>\$ 328,538</u>	<u>\$ 1,240,000</u>	<u>\$ 283,228</u>	<u>\$2,370,000</u>	<u>\$ 611,766</u>

The resolutions providing for the issuance of revenue bonds and notes include the following provisions:

- A. The bonds will only be redeemed from the future earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to electric revenue sinking account for the purpose of making the bond principal and interest payments when due.
- C. AMU is to establish a separate Bond Reserve Account into which monthly deposits of 25% of sinking fund deposits, to a maximum annual amount of principal and interest coming due on the Notes and Parity Obligations which calculate to \$132,530 for the 2003 bond issue and \$174,095 for the 2005 bond issue, for a total of \$306,625, shall be set apart.
- D. Additional monthly transfers of \$2,000 to the Bond Improvement Fund shall be made until the sum of \$100,000 has been accumulated for each bond issue. These accounts are restricted for the purpose of paying for necessary repairs, improvements, and extension to the system.

NOTE 7 - PAYMENT TO THE CITY

AMU provides electricity, water and other services to the City. An amount approximating the charges for utilities and services is contributed back to the City as in-lieu-of-tax payments. For that purpose, the total amount paid to the City for the year was \$42,000. Additionally, AMU paid \$133,652 for the construction of the City's new Fire Station.

NOTE 8 - COMPENSATED ABSENCES

AMU's employees are entitled to certain compensated absences based on length of employment. Vacation hours are accumulated on a calendar year basis with no carryover to subsequent years allowed.

NOTE 9 - PENSION AND RETIREMENT BENEFITS

AMU contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, as established by state statute, to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan participants are required to contribute 4.30% of their annual covered salary through June 30, 2010 and 4.5% through December 31, 2010 and AMU is required to contribute 6.65% through June 30, 2010 and 6.95% through December 31, 2010 of annual covered payroll. Contribution requirements are established by state statute. AMU's required contributions to IPERS for the years ended December 31, 2010, 2009 and 2008, were \$14,507, \$13,558 and \$12,558, respectively.

NOTE 10 - CONCENTRATIONS

AMU provides utility services to commercial and residential customers in a specified service area in and around the City of Alta, Iowa. Credit is granted to substantially all customers, all of whom are local businesses or residents. All new customers of the Utilities are required to pay a meter deposit. The deposit is refundable after twelve months if their account balances have been paid on time during that period. Possible credit risks have been anticipated and management believes that adequate provision has been made for doubtful collections.

NOTE 11 - RISK MANAGEMENT

AMU is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks, except for loss of infrastructure, are covered by the purchase of commercial insurance. AMU assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reflected in the balance sheets for cash and cash equivalents approximate the respective fair values due to the short maturities of those instruments. Management estimates that there are no significant differences between the fair value of financial instruments and the amounts shown as assets and liabilities on the statement of net assets.

NOTE 13 - SPECIAL ITEM

During 2010, a billing error to the Alta Middle School was discovered. The error occurred when the electric service was installed at the school and the wrong multiplier was applied to the billing. The error resulted in the school being billed for half of its actual usage. The total undercharge amounted to \$46,924. The amount of the undercharge which could be collected was \$ 14,781 according to state regulations. The difference of \$32,143 was absorbed by the Electric Utility in each year the error occurred.

NOTE 14 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 25, 2011, which is the date the financial statements were available to be issued, and believes that no events have occurred that require adjustment of the financial statements. However, subsequent to the year end in February 2011, AMU refunded the Series 2005 Electric Revenue Refunding Capital Loan Notes and Issued Electric Revenue Refunding Capital Loan Notes, Series 2011 in the amount of \$1,215,000.

REQUIRED SUPPLEMENTARY INFORMATION

ALTA MUNICIPAL UTILITIES

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (BUDGET BASIS)
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Actual	Original and Final Budget Amounts	Actual to Budget Variance
RESOURCES:			
Use of Money and Property	\$ 11,094		
Charges for Service	1,718,720		
Special Item	14,781		
Miscellaneous	<u>29,449</u>		
Total Receipts	1,774,044	\$ 1,580,856	\$ 193,188
EXPENDITURES:			
Business Type Activities -			
Operating Expenses	1,386,965		
Miscellaneous	11,130		
Debt Service -			
Debt Principal Payments	190,000		
Interest Payments	107,459		
Payment to City	<u>175,652</u>		
Total Disbursements	<u>1,871,206</u>	1,889,980	18,774
Excess (Deficiency) of Receipts			
Over Disbursements	(97,162)	<u>\$ (309,124)</u>	<u>\$ 211,962</u>
RECONCILE TO GENERALLY ACCEPTED			
ACCOUNTING PRINCIPLES:			
Add Items Expensed on Budget -			
Debt Principal Payments	<u>190,000</u>		
Sub-Total	92,838		
Fund Balance, Beginning of Year	2,583,387		
Fund Balance, End of Year	<u>\$ 2,676,225</u>		

ALTA MUNICIPAL UTILITIES

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY REPORTING

In accordance with the Code of Iowa, the Alta City Council annually adopts a budget on the accrual basis following required public notice and hearing for all funds of the primary government and component units, including the operations of Alta Municipal Utilities (AMU). The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The AMU's budget was not amended during the year.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt services, capital projects and business type activities. AMU's budget is included in the business type activities function. Functional disbursements required to be budgeted include disbursements for the primary government funds and enterprise funds, which would include AMU's disbursements. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

OTHER SUPPLEMENTARY INFORMATION

ALTA MUNICIPAL UTILITIES

SCHEDULE OF EXPENSES
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2010

	Business Type Activities - Enterprise Funds		
	Electric Utility Fund	Water Utility Fund	Total
PURCHASED POWER	<u>\$ 443,421</u>	<u>\$ -</u>	<u>\$ 443,421</u>
LOCAL PLANT OPERATIONS:			
Wages and Benefits	\$ 10,146	20,463	\$ 30,609
Supplies and Chemicals	28,691	32,060	60,751
Utilities	5,412	48,776	54,188
Fuel and Oil	2,888	743	3,631
Other Expenses	2,593	2,029	4,622
Total Local Plant Operations	<u>\$ 49,730</u>	<u>\$ 104,071</u>	<u>\$ 153,801</u>
GENERATING EXPENSE - WALTER SCOTT 4:			
Generation Operation/Maintenance	\$ 62,633	-	\$ 62,633
Transmission Operation/Maintenance	85	-	85
Fuel	77,193	-	77,193
Other Expenses	14,292	-	14,292
Total Generating Expense	<u>\$ 154,203</u>	<u>\$ -</u>	<u>\$ 154,203</u>
DISTRIBUTION MAINTENANCE EXPENSES:			
Wages and Benefits	\$ 48,645	46,548	\$ 95,193
Testing and Supplies	24,369	27,329	51,698
Other Expenses	7,576	23,810	31,386
Total Distribution Expenses	<u>\$ 80,590</u>	<u>\$ 97,687</u>	<u>\$ 178,277</u>
ADMINISTRATIVE AND GENERAL EXPENSES:			
Wages and Benefits	\$ 77,778	44,271	\$ 122,049
Office Supplies and Postage	4,803	4,765	9,568
Insurance - Employees	20,350	14,559	34,909
Insurance - General	9,223	6,019	15,242
Professional Fees	11,519	9,878	21,397
Dues and Subscriptions	3,234	952	4,186
Advertising	1,500	1,512	3,012
Meetings and Travel	811	304	1,115
Technical Support	1,256	1,256	2,512
Telephone	1,715	1,146	2,861
Bad Debts (Recoveries)	3,846	2,688	6,534
Other Expenses	4,554	4,005	8,559
Total Administrative and General Expenses	<u>\$ 140,589</u>	<u>\$ 91,355</u>	<u>\$ 231,944</u>

ALTA MUNICIPAL UTILITIES

SCHEDULE OF EXPENSES
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2010

	Business Type Activities - Enterprise Funds		
	Electric Utility Fund	Water Utility Fund	Total
ECONOMIC DEVELOPMENT ENERGY CONSERVATION:			
Economic Development	\$ 25	\$ 28	\$ 53
Energy Conservation and Efficiency	8,176	-	8,176
Total Economic Development Energy Conservation	<u>\$ 8,201</u>	<u>\$ 28</u>	<u>\$ 8,229</u>
DEPRECIATION	<u>\$ 123,466</u>	<u>\$ 93,624</u>	<u>\$ 217,090</u>

OTHER REPORTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Alta Municipal Utilities
Alta, Iowa

We have audited the financial statements of Alta Municipal Utilities (the Utilities), a component unit of the City of Alta, Iowa, as of and for the year ended December 31, 2010, and have issued our report thereon dated May 25, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over the financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other

As part of obtaining reasonable assurance about whether the Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, and contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2010, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utilities' responses, we did not audit the responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of management, the trustees and other parties to whom Alta Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

By



Certified Public Accountant

May 25, 2011

ALTA MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2010

PART I: SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS:

- (a) An unqualified opinion was issued on the financial statements.
- (b) The audit did not disclose any noncompliance which could have a material effect on the financial statement amounts.
- (c) No material weaknesses in internal control were noted.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

Instances of Non-Compliance:

No Matters were noted.

Significant Deficiencies:

II-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - Management of the Utilities will continue to cross-train office employees in an attempt to alleviate the problem. This problem may never be one hundred percent cured due to the limited number of employees to perform the duties.

Conclusion - Response accepted.

II-B-10 Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for the Utilities board members to make management decisions, reporting financial data reliably in accordance with U.S. generally accepted accounting principles (GAAP) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable GAAP financial statements.

II-B-10 **Financial Reporting** (Continued)

Response - Management was hired due to their expertise in utility operations inside and outside of the office, and their ability to work with specialized professional people. The Utility has no plans of hiring additional people or replacing the existing staff. Alta Municipal Utilities has made a conscious decision to rely on the expertise of the auditing firm to prepare year-end financial statements, and to continue to retain a member of management with sufficient knowledge to make management decisions and representations regarding the financial statements.

Conclusion - Response accepted.

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

- III-A-10 **Official Depositories** - The Board of Trustees has approved a resolution naming official depositories. The maximum deposit amount stated in the resolution was not exceeded during the year ended December 31, 2010.
- III-B-10 **Certified Budget** - Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. Utility expenses during the year ended December 31, 2010, did not exceed the amount budgeted.
- III-C-10 **Questionable Disbursements** - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-10 **Travel Expenses** - No disbursement of the Utilities' money for travel expenses of spouses of Utilities' officials or employees were noted.
- III-E-10 **Business Transactions** - Business transactions between the Utilities and Utilities' officials are immaterial and meet the guidelines of the Code of Iowa.
- III-F-10 **Bond Coverage** - Surety bond coverage of Alta Municipal Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that coverage is adequate for current operations.
- III-G-10 **Trustee Minutes** - No transactions were found that we believe should have been approved in the Board of Trustees minutes but were not.
- III-H-10 **Deposits and Investments** - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Alta Municipal Utilities' investment policy were noted.
- III-I-10 **Revenue Bonds and Notes** - No instances of non-compliance with the electric revenue bond and capital loan note requirements for the year ended December 31, 2010, were noted.